

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NALEDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Naledi Local Municipality out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets, cash flows for the year then ended, the statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. The municipality did not have adequate systems and controls in place to account for property, plant and equipment, which resulted in an understatement of property, plant and equipment by R2 836 460. In addition, I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment due to an inadequate management, accounting and information system to account for property, plant and equipment and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R266 176 809 (2012: R245 879 844) in note 6 to the financial statements was necessary.

Accumulated surplus

5. The municipality did not disclose the total revenue and expense for the period and the effect of accounting errors in accordance with GRAP 1, *Presentation of financial statements*, which resulted in the accumulated surplus balance as at 30 June 2011 and the surplus of 2012 being understated by R121 994 627 and R139 712 respectively, and the prior period errors being overstated by R122 134 339. The municipality also did not disclose the detail of the restatements made for prior year errors, as required by GRAP 1, *Presentation of financial statements*, and GRAP 3, *Accounting policies, changes in accounting estimates and errors*. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of

accumulated surplus amounting to R260 065 676 (2012: R243 110 690) as disclosed in the statement of financial position and in the statement of changes in net assets due to supporting documentation that could not be obtained, as well as the limitation on other balances in the statement of financial position. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for accumulated surplus.

Unauthorised expenditure

6. The municipality disclosed unauthorised expenditure in the financial statements that was not in terms of the definition of unauthorised expenditure. Unauthorised expenditure was therefore overstated by R685 381 (2012: understated by R864 582). In addition, I was unable to obtain sufficient appropriate audit evidence regarding unauthorised expenditure due to the lack of evidence that management had properly identified, investigated and recorded all unauthorised expenditure transactions during the current and prior years, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify unauthorised expenditure. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure stated at R69 877 997 (2012: R69 192 615) in note 28.3 to the financial statements was necessary.

Revenue from non-exchange transactions

7. The municipality did not have adequate systems and controls in place to account for revenue from non-exchange transactions, which resulted in an understatement of government grants and subsidies and property rates of R265 379 (2012: overstated by R1 120 031) and R546 103 (2012: R2 480 622) respectively. In addition, I was unable to obtain sufficient appropriate audit evidence regarding government grants and subsidies, donations received, as well as property rates, due to an inadequate management, accounting and information system to account for revenue and the filing system not functioning effectively. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to government grants and subsidies, donations received and property rates stated at R58 552 272 (2012: R47 653 959), R2 203 663 (2012: R17 507 467) and R6 573 598 (2012: R3 790 107), respectively, in note 16 and 18 to the financial statements and in the statement of financial performance were necessary.

Expenditure

8. The municipality did not have adequate systems in place to account for expenditure, which resulted in bulk purchases and general expenditure being overstated by R2 914 716 and R2 585 888 (2012: understated by R5 950 373) respectively, and repairs and maintenance being understated by R137 778 (2012: overstated by R581 422). In addition, I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance, bulk purchases, as well as general expenses, due to an inadequate management, accounting and information system to account for expenditure and the filing system not functioning effectively. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to repairs and maintenance, bulk purchases and general expenses stated at R2 725 844 (2012: R324 625), R19 882 569 (2012: R10 346 646) and R19 220 462 (2012: R14 792 323) respectively, in the statement of financial performance and notes 24 and 25 to the financial statements were necessary.

Trade and other payables

9. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*, which resulted in trade and other payables being understated by R1 487 747 (2012: R5 768 224). The municipality also did not accurately account for payments made in advance, which resulted in trade and other payables and other receivables being understated by R1 170 835. In addition, I was unable to obtain sufficient appropriate audit evidence regarding trade and other payables due to an inadequate management, accounting and information system to account for trade and other payables and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to trade and other payables stated at R28 859 503 (2012: R27 155 491) in note 12 to the financial statements was necessary.

Revenue from exchange transactions

10. The municipality did not have adequate systems and controls in place to account for revenue from exchange transactions, which resulted in an overstatement of service charges and other revenue by R924 194 (2012: understated by R47 310 480) and R1 410 241 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence regarding service charges as well as other revenue due to an inadequate management, accounting and information system to account for revenue, the filing system not functioning effectively and services not calculated and charged on a monthly basis. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to service charges and other revenue stated at R26 575 914 (2012: R25 962 270) and R1 707 482 (2012: R318 904) respectively, in notes 14, 17 and 29 to the financial statements were necessary.

Employee-related costs

11. The municipality did not have adequate systems in place to account for employee-related costs, which resulted in an understatement of employee-related costs by R94 631. In addition, I was unable to obtain sufficient appropriate audit evidence regarding employee-related costs due to an inadequate management, accounting and information system to account for employee-related costs and the filing system not functioning effectively. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to employee-related costs stated at R23 404 100 in note 20 to the financial statements were necessary.

Capital commitments

12. The municipality did not have adequate systems in place to accurately account for unrecognised contractual commitments at year-end, which resulted in capital commitments as disclosed in note 31 to the financial statements being overstated by R9 846 594 (2012: R715 043).
13. The municipality did not disclose the capital commitments in accordance with GRAP 17. The prior year capital commitments should be disclosed as at 30 June 2012 in note 31.

Consumer debtors

14. The municipality did not have adequate systems and controls in place to account for consumer debtors, which resulted in an understatement of consumer debtors by R2 866 735 (2012: R56 277 880). The municipality also did not measure consumer debtors at amortised cost in accordance with GRAP 104, *Financial instruments*, and did not recognise the provision for impairment loss in accordance with GRAP 104, as the basis for the calculation of the impairment did not comply with the stipulations of GRAP 104. The municipality did not comply with these requirements in the current and prior years. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of consumer debtors disclosed as R19 094 807 (2012: R16 750 441) in note 3 to the financial statements. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for consumer debtors.

Financial instruments

15. The municipality did not disclose the carrying amounts of each category of financial instrument, the nature and extent of risks arising from financial instruments to which the municipality was exposed and how the municipality managed those risks in accordance with GRAP 104, *Financial instruments*. The municipality did not comply with these requirements in the current and prior years. In the absence of appropriate records and information, I was unable to determine the correct disclosure of these financial instruments as it was impracticable to do so.

Contingent liabilities

16. The municipality did not disclose all contingent liabilities in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. Employees' job evaluations were not completed and employees were not paid according to the wage scales and rates in the wage curve agreement and did not receive the nine months retrospective increase. The contingent liability was, however, not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence regarding contingent liabilities due to the lack of legal confirmations on pending claims and claims not disclosed. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to contingent liabilities stated at R19 075 459 (2012: undisclosed) in note 32 to the financial statements was necessary.

Depreciation and amortisation

17. The municipality did not have adequate systems in place to account for depreciation, which resulted in an overstatement of depreciation by R113 845. In addition, I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation stated at R18 334 008 (2012: R18 998 391) in note 22 to the financial statements were necessary.

Fruitless and wasteful expenditure

18. The municipality duplicated fruitless and wasteful expenditure in the financial statements that resulted in fruitless and wasteful expenditure being overstated by R2 335 405 (2012: 164 634). In addition, I was unable to obtain sufficient appropriate audit evidence regarding fruitless and wasteful expenditure due to the lack of evidence that management had properly identified, investigated and recorded all fruitless and

wasteful expenditure transactions during the current and prior years, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify fruitless and wasteful expenditure. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to fruitless and wasteful expenditure stated at R8 610 152 (2012: R6 940 618) in note 28.1 to the financial statements was necessary.

Irregular expenditure

19. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure being understated by R4 277 444 (2012: R3 862 433). In addition, I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the current and prior years, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for, and identify, irregular expenditure. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure stated at R2 749 927 (2012: R1 394 175) in note 28.2 to the financial statements was necessary.

Employee benefits

20. IAS 19, *Employee benefits*, outlines the recognition and requirements pertaining to employee benefits. Contrary to these requirements, the municipality did not disclose post -retirement benefits and long service awards for the current and prior years. In the absence of appropriate records and information, I was not able to determine the full extent of the misstatement in employee benefits as it was impracticable to do so.

Provisions

21. GRAP 19, *Provisions, contingent liabilities and contingent assets*, requires that a provision should be made for the municipality's present obligation incurred as a consequence of its past use of landfill sites. Contrary to these requirements, a provision was not made for the environmental rehabilitation costs of restoring the municipality's landfill sites for the current and prior years. In the absence of appropriate records and information, I was unable to determine the full extent of the misstatement in provisions as it was impracticable to do so.

Investment property

22. I was unable to obtain sufficient appropriate audit evidence regarding investment property due to an inadequate management, accounting and information system to account for investment property and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property stated at R2 520 000 (2012: R2 520 000) in note 7 to the financial statements was necessary.

Related parties

23. The municipality did not disclose the remuneration of councillors in accordance with GRAP 20, *Related-party disclosures*, and as required by section 124(1)(a) of the MFMA. The remuneration of councilors stated in note 21 should be disclosed per person. The municipality did not comply with these requirements in the current and prior years.

Consumer deposits

24. I was unable to obtain sufficient appropriate audit evidence regarding consumer deposits due to the lack of evidence that management had properly charged and accounted for all consumer deposits. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer deposits stated at R560 683 (2012: R400 622) in note 10 to the financial statements was necessary.

Value-added tax receivable

25. The municipality did not have adequate systems and controls in place to account for value-added tax (VAT), which resulted in an overstatement of VAT during 2012 by R6 008 851. In addition, I was also unable to obtain sufficient appropriate audit evidence regarding VAT receivable due to an inadequate management, accounting and information system to account for VAT, and the general ledger accounts for VAT could not be reconciled to the VAT calculations. In addition, cases were identified where input VAT was erroneously claimed and VAT was charged on exempt supplies. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT receivable stated at R354 664 (2012: R2 972 625) in note 4 to the financial statements was necessary.

Unspent conditional grants

26. The municipality did not have adequate systems and controls in place to account for unspent conditional grants, which resulted in an understatement of unspent conditional grants of R565 234 (2012: R1 120 032). In addition, I was unable to obtain sufficient appropriate audit evidence regarding unspent conditional grants due to the lack of accurate reconciliations between the opening balance of unspent grants and the balance unspent at the end of the financial year. In addition, documentation to establish if all transactions took place according to the conditions of each grant and whether the expenditure against the grants should have been transferred to revenue in the statement of financial performance could not be supplied. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment relating to unspent conditional grants stated at R112 523 (2012: R3 568 835) in note 13 to the financial statements was necessary.

Budget

27. The municipality did not disclose the final approved budget figures in the financial statements in accordance with GRAP 24, *Presentation of budget information in financial statements*. Therefore material differences were identified between the budgeted amounts disclosed in the financial statements and the final approved budget. This resulted in the amounts disclosed in the statement of comparison of budget and actual amounts to be materially misstated.

Cash and cash equivalents

28. During 2012, I had been unable to obtain sufficient appropriate audit evidence regarding cash and cash equivalents. I had been unable to confirm cash and cash equivalents by alternative means. Consequently, I had been unable to determine whether any adjustment relating to cash and cash equivalents stated at R6 645 627 had been necessary. My audit opinion on the financial statements for the period ended 30 June 2012 had been modified accordingly. My opinion on the current period's financial statements was also modified because of the possible effect of this matter on the comparability of the current period's figures.

Distribution losses

29. The municipality did not calculate and disclose the value of electricity distribution losses in the current and prior years and water distribution losses in the prior year in accordance with section 125(2)(d)(i) of the MFMA. In addition, I was unable to obtain sufficient appropriate audit evidence about water distribution losses of R2 996 095 disclosed in the current year. I was unable to confirm distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment to distribution losses stated at R2 996 095 in note 29.6 to the financial statements was necessary.

Leases

30. The municipality did not disclose the minimum lease payments, contingent rents, present value of future lease payments and a general description of the leasing arrangements, in accordance with GRAP 13, *Leases*. As the municipality did not keep complete and accurate records, I was not able to determine the full extent of the misstatement regarding operating lease disclosure and the finance lease liability, stated at R0 (2012: R446 568), respectively, in the financial statements, as it was impracticable to do so.

Financial sustainability

31. As a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA. The financial statements did not disclose any details of the uncertainty and were prepared on a going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence whether the municipality would be able to continue as a going concern.

Cash flow statement

32. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

Aggregation of immaterial uncorrected misstatements

33. The financial statements as a whole were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, and the statement of financial performance and the notes to the financial statements:

- Finance cost reflected as R1 731 528 was understated by R174 953.
- Accruals reflected as R318 332 in note 34 was overstated by R318 332.

34. In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm the following elements by alternative means.

- Finance cost of R345 491 as included in the disclosed balance of R1 731 528.
- Borrowings of R432 436 (2012: R537 281) as included in the disclosed balance of R423 436 (2012: R537 281).
- Loss with disposal of assets of R349 288 as included in the disclosed balance of R349 288.

As a result, I was unable to determine whether any adjustments to these elements were necessary.

Disclaimer of opinion

35. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

36. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses and impairments

37. As disclosed in notes 3 and 29.6 to the financial statements, material losses to the amount of R31 214 044 and R2 996 095, respectively, were incurred as a result of the write-off of irrecoverable trade debts and distribution losses incurred.

Material underspending of the budget

38. As disclosed in appendix G1, *Expenditure*, to the financial statements, the municipality materially underspent the budget on all votes to the amount of R20 034 127. As a consequence, the municipality did not achieve its objectives as set out in its integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP).

Additional matter

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

40. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

41. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

42. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

43. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

44. The material findings are as follows:

Usefulness of information

45. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 61% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

46. Section 41(c) of the MSA requires that the IDP and the SDBIP should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 43% of the reported objectives, 88% of the reported indicators and 94% of the reported targets were not consistent with the objectives, indicators and targets as per the approved IDP and the SDBIP. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in it.

47. The FMPPI requires that performance targets be measurable. The required performance could not be measured for all the targets. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in it.

48. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 24% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in it.

49. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Reliability of information

50. The FMPII requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to basic service delivery.

This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the basic service delivery.

Compliance with laws and regulations

51. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

52. No evidence could be obtained that the municipality afforded the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to the council for adoption, as required by regulation 15(3) of the Municipal Planning and Performance Management (MPPM).

53. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

54. The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(b) and (c) of the MSA.

55. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls, as required by section 62(1)(c)(i) of the MFMA.

Budget

56. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

57. Sufficient appropriate audit evidence could not be obtained that quarterly reports were submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual reports

58. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

59. The financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

60. Late submission of the annual financial statements to the auditor-general for auditing was not appropriately addressed by the mayor and municipal council, as required by section 133(1) of the MFMA.
61. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
62. The annual performance report for the year under review does not include:
 - the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, as required by section 121(3)(f) of the MFMA.
 - particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by section 121(3)(g) of the MFMA.
 - the report of the audit committee, as required by section 121(3)(j) of the MFMA.

Audit committee

63. The audit committee did not advise the council on matters relating to risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
64. The audit committee did not advise the council and accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
65. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
66. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
67. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM regulation 14(4)(a)(ii).
68. No proof could be obtained that the audit committee did submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM regulation 14(4)(a)(iii).

Internal audit

69. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices and loss control.
70. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the audit committee, as required by MPPM regulation 14(1)(c).

Procurement and contract management

71. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
72. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).

73. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations were approved by the accounting officer only if it was impractical to invite competitive bids, as required by the municipality's SCM regulation 19(a).
74. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
75. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
76. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
77. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
78. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
79. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
80. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM regulation 28(1)(a).
81. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
83. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
84. Sufficient appropriate audit evidence could not be obtained that the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
85. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and CIDB regulation 18.

86. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

87. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

88. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which was fair, equitable, transparent and competitive, as most of the bidding documentation could not be provided for audit purposes.

Human resource management and compensation

89. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of the MSA.

90. The competencies of financial and SCM officials and the chief financial officer were not assessed in a timely manner in order to identify and address gaps in competency levels, as required by regulation 13 of the Municipal Regulations on Minimum Competency Levels.

91. Sufficient appropriate audit evidence could not be obtained that the newly appointed municipal manager submitted proof of previous employment prior to appointment, as per the requirements of regulation 4 of the Municipal Performance Regulations for municipal managers and managers directly accountable to the municipal manager (GNR 805).

92. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by regulation 14(2)(b) of the Municipal Regulations on Minimum Competency Levels.

93. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff, as required by section 67(1)(d) of the MSA.

94. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and the relevant provincial treasury, as required by regulation 14(2)(a) of the Municipal Regulations on Minimum Competency Levels.

Expenditure management

95. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

96. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

97. An adequate management, accounting and information system was not in place, which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

98. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

99. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.
100. The allocation for the Municipal Systems Improvement Grant was used for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
101. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, the Integrated National electrification Programme (Municipal) Grant, the Local Government Financial Management Grant and the Municipal Systems Improvement Grant and did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of DoRA.
102. Sufficient appropriate audit evidence could not be obtained that the municipality timeously submitted project registration forms, for projects it intended to implement in the 2013-2014 financial year, to the provincial Department of Local Government, as required by the Division of Revenue Grant Framework (DoRGF), Government Gazette No. 35399.
103. Sufficient appropriate audit evidence could not be obtained that the municipality submitted project implementation plans to the national department ((Cooperative Governance Traditional Affairs (CoGTA)), as required by the DoRGF.
104. Sufficient appropriate audit evidence could not be obtained that the municipality registered its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the DoRGF.
105. The municipality did not submit MFMA implementation plans to the National Treasury to address weaknesses in financial management, as required by the DoRGF.
106. Sufficient appropriate audit evidence could not be obtained that the municipality submitted its signed activity plan and in the prescribed format to the national department (CoGTA), as required by the DoRGF.
107. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to the National Revenue Fund, as required by section 21(1) of DoRA.

Revenue management

108. A credit control and debt-collection policy was not implemented for the entire year, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
109. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for revenue, debts and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
110. An effective system of internal control for debts and revenue was not in place, as required by section 64(2)(f) of the MFMA.
111. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
112. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

113. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
114. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

115. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
116. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
117. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Liability management

118. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
119. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

120. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

121. Political oversight was not effective. The municipality has a history of political instability and violence. Furthermore, interference into the daily duties of officials took place.
122. The leadership was reluctant to exercise effective oversight due to the risk of political and other interference.
123. There was a slow response to the message communicated by the Auditor-General of South Africa (AGSA) to the administrative and political leadership. This resulted in many significant matters in the action plan not being addressed timeously.

Financial and performance management

124. A lack of consequences for poor performance resulted in various non-compliance with laws and regulations re-occurring, as well as insufficient record-keeping.
125. A lack of competencies was identified, especially at the SCM unit. This resulted in regular and accurate financial and performance reports not being compiled with. Furthermore, it contributed to the occurrence of irregular expenditure.

Governance

126. The internal audit unit was not adequately capacitated and functioning, impacting negatively on the implementation and evaluation of internal controls.
127. The audit committee did not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations mainly due to the ineffective functioning of the internal audit unit.

Auditor-General.

Bloemfontein

20 December 2013



Auditing to build public confidence